CLERK'S COPY.

TRANSCRIPT OF RECORD

SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, 1940

No. 200

RECONSTRUCTION FINANCE CORPORATION,
PETITIONER

vs.

J. G. MENIHAN CORP., J. G. MENIHAN, SR., AND J. G. MENIHAN, JR.

ON WRIT OF CERTIORARI TO THE UNITED STATES CIRCUIT COURT OF APPEALS FOR THE SECOND CIRCUIT

PETITION FOR CERTIORARI FILED JULY 2, 1940
CERTIORARI GRANTED OCTOBER 14, 1940

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1 In United States Circuit Court of Appeals
for the Second Circuit

J. G. MENIHAN CORP., J. G. MENIHAN, SR., AND J. G. MENIHAN, JR., DEFENDANTS-APPELLANTS

vs.

RECONSTRUCTION FINANCE CORPORATION, PLAINTIFF-APPELLEE

Statement under rule XIII

This suit in equity was begun in the Western District of New York by the filing of a bill of complaint and the service of an equity subpoena on the defendants on or about September 30th, 1937. The original plaintiff was Reconstruction Finance Corporation. The original defendants were J. G. Menihan Corp., J. G. Menihan, Sr., and J. G. Menihan, Jr. There has been no change in parties.

All defendants joined in one answer, which was filed October 16, 1937. No property was attached, and there was neither an arrest nor a temporary injunction. The issues raised by the pleadings were tried in open Court without a jury on January 24, 25, 26, and February 6, 1939, at Rochester, New York, before Honorable Harold P. Burke, United States District
2 Judge for the Western District of New York. No question was referred to any commissioner, master, or referee. The final decree was filed November 13, 1939, and the order denying defendants' application for an additional allowance was filed October 31, 1939. The notice of appeal was filed November 17, 1939.

There has been no change of parties or attorneys and the names of the parties are given in full in the above title.

In United States District Court, Western District of New York

In Equity No. 2174

RECONSTRUCTION FINANCE CORPORATION, PLAINTIFF

vs.

J. G. MENIHAN CORP., J. G. MENIHAN, SR., AND J. G. MENIHAN, JR., DEFENDANTS

Notice of appeal

Filed Nov. 17, 1939

Notice is hereby given that J. G. Menihan Corp., J. G. Menihan, Sr., and J. G. Menihan, Jr., defendants above named, hereby

appeal to the United States Circuit Court of Appeals for the
3 Second Circuit from the order entered herein on October 31, 1939, denying defendant's application for costs, and from so much of the final decree herein as resettled and entered herein on November 13, 1939, as denies costs to the defendants.

Dated November 15, 1939.

WERNER, HARRIS & TEW,
by GEORGE H. HARRIS,
Attorneys for Appellants,
J. G. Menihan Corp., J. G. Menihan, Sr., and J. G. Menihan, Jr.,
Address, 610 Union Trust Bldg., Rochester, New York.

To ABBOTT, RIPPEY & HUTCHENS,
Attorneys for Plaintiff, Reconstruction Finance Corporation,
615 Powers Building,
Rochester, New York,

and to

MAY C. SICKMON,
Clerk, United States District Court, Western District of New York.

4 In United States District Court, Western District of New York

[Title omitted.]

Decree

The above cause having come on for trial at Rochester, New York, Hon. Harold P. Burke, United States District Judge presiding, on January 24, 25, 26 and February 6, 1939, and the plaintiff having appeared by its attorneys, Abbott, Rippey & Hutchens, Rochester, New York, and by Nims & Verdi, Percy E. Williamson, Jr., and Walter J. Halliday, of New York City, of counsel, and the defendants appearing by Werner, Harris & Tew, Frank Keiper of Rochester, New York, of counsel, and the Court having considered the evidence and having made findings of fact and conclusions of law, and this decree having been resettled by order dated November 13th, 1939, now on motion of Werner, Harris & Tew, attorneys for the defendants, it is

Ordered, adjudged, and decreed;

1. That the plaintiff is not entitled to relief.

5 2. That the complaint be, and the same hereby is dismissed without costs, costs being denied upon the ground

that the imposition of costs against the plaintiff, a governmental agency, is not permitted by law.

Dated November 13, 1939.

HAROLD P. BURKE,
United States District Judge.

In United States District Court, Western District of New York

[Title omitted.]

Order

The defendants having moved for an additional allowance and the matter having come on for argument on September 5th, 1939, George H. Harris appearing in support of said motion and Harold G. Hutchens in opposition thereto, and having considered the affidavit of George H. Harris verified August 22nd, 1939, and his further affidavit verified September 13th, 1939, and the affidavit of Jeremiah G. Menihan, Sr., verified Sep-
6 tember 13th, 1939, and upon due consideration, it is

Ordered that the said motion be and the same hereby is denied upon the ground that the imposition of costs against the plaintiff, a governmental agency, is not permitted by law.

Dated October 31, 1939.

HAROLD P. BURKE,
United States District Judge.

In United States District Court, Western District of New York

[Title omitted.]

Statement under Rule 76

1. This suit was begun in the United States District Court for the Western District of New York by the plaintiff, Reconstruction Finance Corporation, against the defendants, J. G. Menihan Corp., a New York State Corporation, and J. G.
11 Menihan, Sr., and J. G. Menihan, Jr., both residents of Rochester, New York, where the defendant corporation had its principal place of business. It was commenced by the personal service of a subpoena on or about September 30th, 1937.

2. The complaint alleged, in substance, that the plaintiff was the owner of certain trademarks; that the defendants had infringed, and were infringing the same, and were likewise engaged in unfair competition with the plaintiff. The relief sought was an injunction, both temporary and permanent, an accounting, treble damages, and costs.

All defendants united in one answer, placing in issue all the material allegations of the complaint, and setting up certain affirmative defenses. The answer demanded dismissal of the complaint with costs.

3. The cause came on for trial at Rochester, New York, in the District Court of the United States for the Western District of New York before Honorable Harold P. Burke, United States District Judge, without a jury and was tried on January 24, 25, and 26, and February 6, 1939, and was submitted on briefs of counsel.

On July 31, 1939, Judge Burke handed down a decision directing the dismissal of the complaint, and settlement of findings and a decree.

8 4. Findings were prepared, submitted, and signed, and a decree entered on October 19, 1939, dismissing the complaint without costs. Prior thereto the defendants made an application for an extra allowance of costs. This application was denied on October 31, 1939, "on the ground that the imposition of costs against the plaintiff, a governmental agency, is not permitted by law."

On November 13, 1939, defendants made an application to resettle the original decree, and the same was resettled by adding at the foot thereof the phrase:

"Costs being denied upon the ground that the imposition of costs against the plaintiff, a governmental agency, is not permitted by law."

5. The present appeal is taken from the order of October 31, 1939, and from so much of the final decree as resettled on November 13, 1939, as denies costs to the defendants.

6. To be annexed hereto and taken herewith as constituting the record on appeal are the notice of appeal, the decree as resettled November 13, 1939, the order of October 31, 1939, the opinion of Judge Burke dated July 21, 1939, dismissing the complaint herein, and the opinion of Judge Burke dated October 31, 1939, denying defendants' application for an extra allowance.

7. The point raised by the defendants upon this appeal is that

9 costs against the plaintiff are permitted by law, and that the learned Trial Court was in error in holding otherwise.

Dated November 20, 1939.

WERNER, HARRIS & TEW,
Attorneys for Defendants-Appellants,
by GEORGE H. HARRIS,
ABBOTT, RIPLEY & HUTCHENS,
Attorneys for Plaintiff,
by HAROLD G. HUTCHENS.

This statement conforms to the truth, and is approved as presenting the questions raised by the appeal.

Dated December 9, 1939.

HAROLD P. BURKE,
United States District Judge.

10 In United States District Court, Western District of New York

RECONSTRUCTION FINANCE CORPORATION, PLAINTIFF

vs.

J. G. MENIHAN CORP., J. G. MENIHAN, SR., and J. G. MENIHAN, JR., DEFENDANTS

Appearances: Abbott, Rippey & Hutchens, Rochester, N. Y., Attorneys for Plaintiff (Nims & Verdi, New York City, by Percy E. Williamson, Jr., and Walter J. Halliday, of counsel). Werner, Harris & Tew, by George H. Harris, Rochester, N. Y., Attorneys for Defendant (Frank Keiper of counsel).

Decision by Burke, D. J.

This is a suit to enjoin trade-mark infringement and unfair competition. The plaintiff asks for an injunction against the use of the word "Menihan" either as a trade-mark or as part of a corporate name and against the use of the terms "Arch Aid" or "Menihan Arch Aid" as trade-marks for shoes. An acounting is also demanded.

The Menihan Company from which the plaintiff acquired its rights to the trade names and trade-marks in question was in the business of manufacturing and selling shoes. The business
11 prospered until about the year 1929 when its annual net sales were upwards of $3,000,000. From that time on the business of the company gradually receded. In 1934 it applied to the plaintiff for a loan. The Menihan Company had advertised and sold its product by the aid of the marks "Menihan" and "Arch Aid" and it did a nation-wide business. It distributed its shoes by maintaining retail shops of its own and by sales agencies with shops in many of the principal cities throughout the United States and Canada. Three separate loans were made by the plaintiff to The Menihan Company, the aggregate amount of which was $250,000, and as security for which the plaintiff took mortgages and assignments of the real and personal property of the Menihan Company, including its trade-marks and trade names. The Menihan Company defaulted and in December of 1936 was was adjudicated a bankrupt. At a public sale conducted by the

Trustee in Bankruptcy the plaintiff purchased substantially all of the real and personal property of the bankrupt, including the good will, trade-marks, and trade names.

In January 1937 the defendant corporation was formed. The defendant, J. G. Menihan, Sr., who had been president of The Menihan Company, became its president. The new company began the manufacture and sale of shoes at Rochester, New York, and proceeded to use the trade-marks "Menihan" and "Arch Aid" in selling its product. By this suit the plaintiff seeks to prevent such use.

12 This is an attempt upon the part of the plaintiff to preserve the trade-marks and trade names in gross separate and apart from the good will of an existing business. In December 1936, when The Menihan Company filed its voluntary petition in bankruptcy, a receiver was appointed to take possession of the property of the bankrupt, to employ such help as might be necessary to preserve the assets, to collect the accounts receivable, and to look after the interests of creditors until a trustee would be appointed. The receiver was given no authority to conduct the business nor did he conduct the business. He sold some shoes which had been manufactured but otherwise did nothing to continue the business. Nor did the trustee continue the business. He proceeded forthwith upon his appointment to liquidate the assets.

The trustee conducted a public sale in March 1937. At the trustee's sale the plaintiff purchased the real estate, fixtures, furniture, machinery, and equipment, all trade-marks, together with the good will of the business of the bankrupt and such right as the bankrupt had to use the name "The Menihan Company" and the name "Arch Aid." Thereafter the plaintiff attempted unsuccessfully to sell the business intact. In September of 1937, immediately prior to the commencement of this action, the plaintiff advertised for sale at public auction the furniture, machinery, lasts, dies, patterns, and equipment which it had purchased at

13 the trustee's sale. The sale was had on October 5, 1937. At that sale plaintiff disposed of to the public without restriction all the physical assets of the bankrupt excepting the factory building with overhead shafting. It made no attempt to sell the good will nor the trade-marks and trade names which it now claims to own and protection for which it seeks in this action.

The acts of the plaintiff itself were sufficient to destroy the business and good will. The product which the old company sought to have identified in the minds of the public by the name "Arch Aid" was a corrective shoe designed to aid weak, defective or abnormal feet as the trade-mark implies. The trade, if any, to which the plaintiff succeeded is the trade in that product and not in some other product. It is not the trade in ordinary shoes

nor in corrective shoes in general but in corrective shoes such as were designed and sold by the old company. In seeking protection for such trade the plaintiff's claim is that the public had come to know such corrective shoes as Menihan Arch Aid shoes. Everything that is necessary to the manufacture of that product is gone and as far as the proof shows, irrevocably so. The most essential elements, the lasts, dies, and patterns, were sold by the plaintiff itself who now seeks to have the trade protected. The plaintiff contends, however, that new lasts, dies, and patterns could be purchased upon resuming active manufacture of shoes. It is true that new implements could be secured for the manufacture of shoes but there is no proof that they could
14 produce the product sold by the old company as Arch Aid shoes. There is no proof that the plaintiff retained in connection with its claimed good will even the designs or measurements or enough to preserve the essential idea of the corrective features of Arch Aid shoes. No vestige of the old business remains except the factory building. The entire personnel of the old company is gone. The factory has long since been closed. The business has been discontinued. The elements necessary to create Arch Aid shoes are gone. What is left does not constitute a business to which good will, trade-marks, and trade names may attach.

A trade-mark is not susceptible of ownership except in connection with an existing business. It is a shield or protection for the good will of the business. If there is no business there may be no good will and nothing to protect by the use of a trade-mark. It is the trade and not the mark that is to be protected. Hanover Milling Co. vs. Metcalf, 240 U. S. 403, 414; United Drug Company vs. Rectanus Co., 248 U. S. 90. "A trade-mark cannot exist independently of some business in which it is used. The sole function of a trade-mark being to indicate the origin or ownership of the goods, it cannot exist apart from the business to which it is incident. There is no such right known to the law as an exclusive ownership in a trade-mark apart from the right to use it in a business. It cannot exist in gross." President Suspender Co. vs. MacWilliam, 238 Fed. 159, 161.

15 Plaintiff contends that prospective purchasers of the business and good will were dissuaded from purchasing by reason of the defendant's use of the trade-marks. The only evidence tending to establish this is the negotiations by the Baris Shoe Company and L. V. Marks and Sons. The former was a jobber in the shoe business. The letter of inquiry made no reference to the purchase of the business but related solely to the purchase of the trade-marks and trade name. A representative of the latter firm attended the auction sale at the time that the

plaintiff sold the machinery, equipment, furniture and fixtures. He made inquiry of the auctioneer about the trade names and subsequently wrote the plaintiff about the trade name "Menihan Arch Aid." No reference was made in the negotiations to the purchase of the business. In fact, this representative had seen with his own eyes the sale of the machinery and equipment and everything that was required to make the shoes.

Plaintiff relies on Koppell Industrial Car and Equipment Co. vs. Orenstein & Koppell, 289 Fed. 446. In that case the alien property custodian sold the American business and good will of the German corporation as a going concern. After such purchase the appellant entered upon the manufacture and carrying on of the American business. The court pointed out that the sale was as complete as if it were a voluntary conveyance. The court cited as authority for its decision Peck Brothers and Co. vs. Peck Brothers Co., 113 Fed. 291. In the latter case Peck Brothers & Co. became financially embarrassed and a bill
16 in equity was filed by the owners of a majority of the stock against the corporation for an appointment of a receiver. Receivers were appointed who took charge of the corporation and managed its business. Subsequently, another corporation was formed by one of the receivers and this corporation proceeded to use the trade name and to garner the business of Peck Brothers & Co. In that case the court said "The name and designation was a property right belonging to and a valuable asset of the original Connecticut corporation. Its financial embarrassment caused no suspension of its manufacture and trade. That was continued by the receivers appointed under the bill manifestly for the purposes of reorganization." In the Koppell case the court also cited S. F. Myers Co. vs. Tuttle, 183 Fed. 235, and approved the reason for the decision of the District Court in that case. In the latter case the court said "I think he was substantially the purchaser of the business as a going concern and he is entitled to carry on the business without interference—"

One of the defenses urged is that plaintiff by its acts abandoned its right to the use of the trade-marks and trade names. There was no abandonment in the strict sense of the term for abandonment presupposes the ownership of trade-marks and trade names which can only be in connection with an existing business. For that reason the cases regarding abandonment and the intention to abandon the use of trade-marks and trade names are inapplicable here. The plaintiff's acts amounted to
17 more than abandonment. They amounted to the destruction of what was necessary to the existence of a business to which good will, trade-marks and trade names might attach.

But even considering abandonment in its broader sense, Beechnut Packing Co. vs. Lorilard, 273 U. S. 629, cited by plaintiff to sustain its contention that a trade-mark is not abandoned or destroyed as a matter of law merely through disuse, is distinguishable. In that case the Lorilard Company which claimed the right to use the trade-mark "Beechnut" on its tobacco continued at all times in the tobacco business. It merely suspended use of the trade-mark "Beechnut." In the case at bar not only the use of the trade-mark but the business itself was effectively discontinued.

Whether plaintiff relies for its rights to the exclusive use of the trade-mark "Arch Aid" on the mortgages, the assignment or the conveyance from the trustee in bankruptcy, it got no better or broader rights to such use than the old company had. It may be that the defendant, J. G. Menihan, Sr., is estopped from asserting that the trade-marks are invalid but that does not apply to the corporate defendant nor to J. G. Menihan, Jr. Neither of the latter had any part in negotiating the loans nor did they make any representations as to the validity of the trade-marks. The plaintiff contends that although the words "Arch Aid" are descriptive, that through long use and association with shoes made by the bankrupt company it had attained a secondary significance and meant to the public shoes made by the old company. I do not think the proof is sufficient
18 to establish such secondary meaning. It may be that the mark "Arch Aid" had that meaning in the minds of dealers familiar with the corrective shoes but the proof falls short of establishing that meaning in the minds of the public. The advertising that the company did along that line expressed only a desire on its part that "Arch Aid" would come to mean that.

If the plaintiff is right in its contention that "Arch Aid" had attained a secondary significance and meant to the public the line of corrective shoes sold by the old company, a determination by this court that the plaintiff has the exclusive right to the use of that mark would lead to a potential fraud in the hands of prospective purchasers of the mark. The public would then have a right to expect to get the same shoe under that name that it had bought from the old company. There is no proof that a purchaser of the trade-mark could deliver that product. In fact, the necessary inference from plaintiff's sale of everything that was necessary to create it is that a new user of the mark would have to substitute something else for the original.

The plaintiff has no trade as a basis upon which it may invoke the equity powers of this court to restrain acts of infringement

and unfair competition. The bill of complaint should be dismissed. Settle findings, conclusions and a decree upon notice.

Dated July 31, 1939.

HAROLD P. BURKE,
United States District Judge.

19 IN UNITED STATES DISTRICT COURT

Western District of New York

In Equity No. 2174

RECONSTRUCTION FINANCE CORPORATION, PLAINTIFF

vs.

J. G. MENIHAN CORP., J. G. MENIHAN, SR., and J. G. MENIHAN, JR., DEFENDANTS

Appearances: Harold G. Hutchens, for the Plaintiff. George H. Harris, for the Defendants.

Decision by Burke, D. J.

The defendants having prevailed on the trial of this action apply for costs and an additional allowance. The plaintiff is an agency of the Federal Government. Rule 54 (d) of the Rules of Civil Procedure provides that costs against the United States, its officers and agencies, shall be imposed only to the extent permitted by law. By the adoption of this rule costs against the United States, its officers and agencies were left unaffected. I find no provision of law permitting costs to be imposed against the Reconstruction Finance Corporation. I therefore hold that the defendants are not entitled to costs. (Federal Deposit Insurance Corporation vs. Cassidy, et al., Circuit Court of Appeals, 10th Circuit, decided September 25, 1939.)

Dated October 19, 1939.

HAROLD P. BURKE,
United States District Judge.

20 Circuit Court of Appeals for the Tenth Circuit
September 25, 1939

FEDERAL DEPOSIT INSURANCE CORPORATION

vs.

CASADY

On appeal from the District Court of the United States for the Western District of Oklahoma

Before PHILLIPS, BRATTON, and WILLIAMS, Circuit Judges.

WILLIAMS, C. J. The First State Bank of Cheyenne, Oklahoma, having become insolvent on March 25, 1935, it was closed and taken over by the Bank Commissioner of said state for liquidation. Deposits in said bank were insured by the Federal Deposit Insurance Company as limited by Section 12B (a), (y), of Act of June 16, 1933, 48 Stat. 168, 179, as amended by Act of June 16, 1934, 48 Stat. 969.

John C. Casady, as treasurer of the town of Cheyenne, carried five separate and distinct deposits in said bank, at all times designated and appearing on its books as seperate deposits, * * *

Said treasurer and other appropriate and necessary parties instituted this action in the District Court of Roger Mills County, Oklahoma, against the bank and the Insurance Corporation * * *

21 The case was duly removed by the Insurance Corporation to the United States Court for the Western District of Oklahoma, the court ruling that it had thereby acquired jurisdiction. Judgment having been rendered in favor of the plaintiffs, the Insurance Corporation appealed.

The findings of fact as made by the trial court, the case being tried without the intervention of a jury, are supported by substantial evidence, and his conclusions of law are in conformity therewith.

Costs—The question is raised as to costs. Appellant being a governmental agency, costs should neither be awarded in its favor nor against it in this action, and the adjudication against the defendant as to costs is eliminated. Paragraph (d), Rule 54.

22 In United States Circuit Court of Appeals for the Second Circuit

[Title omitted.]

Stipulation as to record

It is hereby stipulated that the foregoing papers shall constitute the record on appeal herein and may be so certified.

Dated December 22, 1939.

WERNER, HARRIS & TEW,
by GEORGE H. HARRIS,
Attorneys for Defendants-Appellants.

ABBOTT, RIPPEY & HUTCHENS,
by HAROLD G. HUTCHENS,
Attorneys for Plaintiff-Appellee.

23 [Clerk's certificate to foregoing transcript omitted in printing.]

32 Supreme Court of the United States

Order allowing certiorari

Filed October 14, 1940

The petition herein for a writ of certiorari to the United States Circuit Court of Appeals for the Second Circuit is granted.

And it is further ordered that the duly certified copy of the transcript of the proceedings below which accompanied the petition shall be treated as though filed in response to such writ.

[Endorsement on cover:] Enter Attorney General. File No. 44549. U. S. Circuit Court of Appeals, Second Circuit. Term No. 200. Reconstruction Finance Corporation, Petitioner *vs.* J. G. Menihan Corp., J. G. Menihan, Sr., and J. G. Menihan, Jr. Petition for writ of certiorari and exhibit thereto. Filed July 2, 1940. Term No. 200 O. T. 1940.

U. S. GOVERNMENT PRINTING OFFICE: 1940

UNITED STATES CIRCUIT COURT OF APPEALS FOR THE SECOND CIRCUIT

J. G. MENIHAN CORP., J. G. MENIHAN, SR., AND J. G. MENIHAN, JR., DEFENDANTS-APPELLANTS

v.

RECONSTRUCTION FINANCE CORPORATION, PLAINTIFF-APPELLEE

Upon reading and filing the annexed stipulation, dated January 9, 1940, it is on motion of Abbott, Rippey and Hutchens, ordered, that Effingham Evarts, be and he hereby is substituted as Attorney for plaintiff-appellee, without prejudice to the proceedings heretofore had herein.

Dated New York, New York, January 15, 1940.

D. E. ROBERTS, *Clerk.*

United States Circuit Court of Appeals for the Second Circuit

J. G. MENIHAN CORP., J. G. MENIHAN, SR., AND J. G. MENIHAN, JR., DEFENDANTS-APPELLANTS

v.

RECONSTRUCTION FINANCE CORPORATION, PLAINTIFF-APPELLEE

It is hereby stipulated, consented, and agreed, that Effingham Evarts, of 33 Liberty Street, New York City, New York, be and he hereby is substituted as Attorney for plaintiff-appellee in the above-entitled action; that an order to this effect may be entered by any party without notice.

Dated January 9, 1940.

ABBOTT, RIPPEY & HUTCHENS,
Abbott, Rippey Hutchens,
Attorneys for Plaintiff-Appellee.

RECONSTRUCTION FINANCE CORPORATION,
By THOMAS E. PARKS,
Attorney-in-Fact, Plaintiff-Appellee.

EFFINGHAM EVARTS,
Attorney to be substituted.

STATE OF NEW YORK,
County of New York, ss:

On this 15th day of January 1940, before me personally came Thomas E. Parks, to me known and known to me to be the person described in and who executed the foregoing instrument as attorney-in-fact for Reconstruction Finance Corporation and he acknowledged to me that, as such attorney-in-fact, acting under and by virtue of a power of attorney duly executed by and under the corporate seal of Reconstruc-

tion Finance Corporation dated the 18th day of December 1939, he executed the foregoing instrument as the act and deed of Reconstruction Finance Corporation for the purposes therein mentioned.

SOL A. LIEBMAN,
Sol A. Liebman,
Notary Public, Kings County.

Kings Co. Cl'k No. 135 Reg. No. 263. N. Y. Co. Cl'k No. 596 Reg. No. 0L30. Bronx Co. Cl'k No. 40 Reg. No. 149L4. Queens Co. Cl'k No. 822. Reg. No. 3244. Term expires March 30, 1940.

United States Circuit Court of Appeals for the Second Circuit

No. 252—October Term, 1939

(Argued March 8, 1940. Decided May 13, 1940)

RECONSTRUCTION FINANCE CORPORATION, PLAINTIFF-APPELLEE

vs.

J. G. MENIHAN CORP., J. G. MENIHAN, SR., AND J. G. MENIHAN, JR., DEFENDANTS-APPELLANTS

Appeal from the District Court of the United States for the Western District of New York

Suit in equity by Reconstruction Finance Corporation to enjoin trade-mark infringement and unfair competition. After trial the complaint was dismissed without costs on the ground that the imposition of costs against the plaintiff, a governmental agency, is not permitted by law. From so much of the final decree as denied them costs, the defendants appeal. They also appeal from a prior order denying, for the same reason, their application for an additional allowance. Reversed and remanded.

Before: SWAN, CLARK, and PATTERSON, Circuit Judges.

Werner, Harris, and Tew, Solicitors for Appellants; Hugh J. O'Brien, of Counsel.

Effingham Evarts, Solicitor for Appellee; C. J. Durr, Assistant General Counsel, Hans A. Klagsbrunn, Counsel, and Sol A. Liebman, of Counsel.

SWAN, Circuit Judge;

This appeal is before us upon a record made up pursuant to Rule 76 of the Rules of Civil Practice. The question presented is whether the trial court erred in dismissing the complaint without costs and in denying the defendants' application for an additional allowance on the theory, stated in the court's opinion, 29 F. Supp. 853, that no provision of law permits the imposition of costs against the Reconstruction Finance Corporation.

In equity and in admiralty the imposition of costs is so largely a matter within the discretion of the trial court that a decree relating to costs alone will not ordinarily be reviewed by an appellate court.

Canter v. Insurance Companies, 3 Pet. 307, 319; Du Bois v. Kirk, 158 U. S. 58, 67; Wingert v. First Nat. Bank, 223 U. S. 670, 672. But the rules does not apply when, as in the case at bar, the power of the court, and not merely the exercise of its discretion, is the controverted question. Newton v. Consolidated Gas Co., 265 U. S. 78, 83; United States v. Knowles' Estate, 58 F. 2d 718 (C. C. A. 9); Stallo v. Wagner, 245 F. 636 (C. C. A. 2); In re Michigan Central R. Co., 124 F. 727 (C. C. A. 6).

Reconstruction Finance Corporation is a corporation created by the act of January 22, 1932, for the purpose of providing emergency financing facilities in the interest of agriculture, commerce and industry. 47 Stat. 5; see also 47 Stat. 709; 48 Stat. 1108. Its capital stock is owned by the United States and its affairs are managed by a board of directors consisting of three ex officio members and four other persons appointed by the President of the United States by and with the consent of the Senate. Beyond doubt it is a governmental agency for which the corporate form was adopted for administrative convenience. Baltimore Nat. Bank v. Tax Commission, 297 U. S. 209, 211; Langer v. United States, 76 F. 2d 817, 823 (C. C. A. 8). Section 4 of the act creating the corporation gives it power "to sue and be sued, to complain and to defend, in any court of competent jurisdiction, State, or Federal." 47 Stat. 6. The present suit was brought to enforce supposed property rights in certain trade-marks which the plaintiff had acquired under a bankruptcy sale of the previous corporate owner to which the plaintiff had made a loan. On the merits the case went against the plaintiff. 28 F. Supp. 920. Were it an ordinary private corporation costs would undoubtedly have been awarded to the successful defendants.

Rule 54 (d) of the Rules of Civil Procedure reads as follows:

"(d) Costs. Except when express provision therefor is made either in a statute of the United States or in these rules, costs shall be allowed as of course to the prevailing party unless the court otherwise directs; but costs against the United States, its officers, and agencies shall be imposed only to the extent permitted by law. * * *"

This rule is merely declaratory of existing law with respect to the imposition of costs against governmental agencies. There is no statutory provision expressly permitting the taxation of costs against the appellee. Hence the appellants must find an implied permission if they are to prevail.

It is well settled that when the United States is a litigant, whether suitor or defendant, costs are not taxable against it in the absence of direct statutory authorization. United States v. Chemical Foundation, 272 U. S. 1, 20; United States v. Worley, 281 U. S. 339, 344; The Glymont, 66 F. 2d 617, 619 (C. C. A. 2); United States v. Knowles' Estate, 58 F. 2d 718 (C. C. A. 9). But these cases are not necessarily controlling when special governmental activities are conducted through the medium of a corporate instrumentality endowed with many of the attributes of a private corporation, including the power to sue and the

liability to be sued. As Mr. Justice Frankfurter remarked in Keifer & Keifer v. R. F. C., 306 U. S. 381, at 388, "the government does not become the conduit of its immunity in suits against its agents or instrumentalities merely because they do its work." There the question was whether a Regional Agricultural Credit Corporation was suable. Its charter was silent on the subject. The problem was stated by the court at page 389:

"Congress may, of course, endow a governmental corporation with the government's immunity. But always the question is: has it done so?"

The opinion then went on to show the recent trend of congressional policy and to hold the legal position of Regional Agricultural Credit Corporation in respect to suability to be the same as though Congress had expressly empowered it to sue and be sued. Other recent cases in the Supreme Court also indicate that when authority is given to sue a governmental corporation it is to be liberally construed. See Continental Bank v. Rock Island Ry., 294 U. S. 648, 684; United States v. Shaw, 8 U. S. L. W. 533, 534; Federal Housing Administration v. Burr, 8 U. S. L. W. 285. In the case last cited the Housing Administration claimed immunity from garnishment. In denying this claim the opinion of Mr. Justice Douglas (p. 286) states that, in the absence of reasons to the contrary, "it must be presumed that when Congress launched a governmental agency into the commercial world and endowed it with authority to 'sue or be sued', that agency is not less amenable to judicial process than a private enterprise under like circumstances would be." It was also held that, although the federal statute was silent on the subject, execution under the judgment was part of the civil process embraced in the "sue and be sued" clause and might be issued against funds in possession of the Housing Administration, though not against funds or property of the United States. In the light of these decisions we are led to the conclusion that in conferring upon the appellee the power to sue and be sued, Congress intended to subject it to the ordinary incidents of a suit, one of which is the imposition of costs against an unsuccessful litigant. If the rendition of a judgment against the Reconstruction Finance Corporation, implicit in permitting it to be sued, is not an interference with its governmental activities, we can see no reason for supposing that immunity was granted with respect to the small additional sum that would normally be added to the judgment as costs.

Further indication that a wholly owned governmental corporation is to be treated as a private corporation when the problem is one of suability is to be found in Sloan Shipyards v. U. S. Fleet Corp., 258 U. S. 549. At page 567, Mr. Justice Holmes stated that where a governmental instrumentality is incorporated "you have a person, and as a person one that is presumably subject to the general rules of law." Another case looking in the same direction is Missouri Pacific R. Co. v. Ault, 256 U. S. 554. There, although the clause allowing suit against the Director General of Railroads was not the usual "sue and be sued"

clause, and seemed in terms to embrace all kinds of liability, it was held not to sanction the recovery of penalties, but to include interest and costs as part of the usual compensatory damages.

The appellee cites National Home v. Wood, 81 F. 2d 963 (C. C. A. 7) and Federal Deposit Ins. Co. v. Casady, 106 F. 2d 784 (C. C. A. 10), as opposed to the conclusion we have reached. The first is readily distinguishable by reason of the statute involved, 38 U. S. C. A. § 11.(d). See 299 U. S. 211, 212n. With the second we must respectfully disagree if the legal position of the Federal Deposit Insurance Company is the same as that of Reconstruction Finance Corporation in respect to costs.

In our opinion the district court had power to allow costs to the defendants on dismissal of the complaint, and they are to be allowed as of course unless the district court otherwise directs. We think it was also within the power of the trial court, at his discretion, to grant the motion for an additional allowance. We express no opinion as to how his discretion should be exercised; we are concerned only with the question of his power. The order denying the motion is reversed in order that the district court may entertain the application for an additional allowance in the light of the appropriate equitable considerations. Sprague v. Ticonic Bank, 307 U. S. 161.

The cause is remanded in order that the district court may exercise his discretion both as to normal costs and as to the motion for an additional allowance. The appellants are awarded appellate costs.

CLARK, Circuit Judge (dissenting).

Though Judge Swan's opinion is persuasive indeed, I think it results in an order for the payment of government funds to private persons without authorization of law. Even as between private litigants, costs, at least in an equity suit, are not a matter of right to a litigant, but are purely at the discretion of the court. Gold Dust Corp. v. Hoffenberg, 2 Cir., 87 F. 2d 451, 453; Ex parte Peterson, 253 U. S. 300, 317; Payne, Costs in Common Law Actions in the Federal Courts, 21 Va. L. Rev. 397, 399. And costs are never awarded against the United States except where there is direct statutory authority going beyond mere permission to bring suit. The opinion cites examples of the many precedents. See also 8 Ann. Cas. 398; 21 Va. L. Rev. 416; 28 U. S. C. A. §§ 548, 555; Rule 32.5 of the Supreme Court, and Rule 29.4 of this Court; and compare Guaranty Trust Co. v. United States, 304 U. S. 126; 134n.; Globe & Rutgers Fire Ins. Co. v. United States, 2 Cir., 105 F. 2d 160, 165, 167; 28 U. S. C. A. §§ 258, 870.[1]

This immunity would appear to apply to a governmental corporation, exercising governmental functions in place of the national gov-

[1] The history of 28 U. S. C. A. § 870 seems to me instructive because of what the statute does not say. That section originally provided that no bond on appeal should be required of the United States or a party acting by its direction, but in case of adverse decision "such costs as by law are taxable against the United States" or the party acting for it should be paid out of the contingent fund of the department under whose directions the proceedings were instituted. This statute was held to deal only with costs on appeal, which, however, were subject to the rules of court above cited. Treat v. Farmers' Loan & Trust Co., 2 Cir., 185 F. 760. In 1934, it was amended to include specifically governmental corporations, 48 Stat. 1109; it has been held to apply to the appellee here. In re New York Investors, 2 Cir., 79 F. 2d 179, certiorari denied 296 U. S. 649.

ernment itself, just as much as does tax immunity. Cf. Graves v. New York ex rel. O'Keefe, 306 U. S. 466, 477. And if any corporation is to be exempt, certainly the Reconstruction Finance Corporation must be included in the list, for it has been made the direct loaning authority of the United States, a conduit from the United States Treasury for the supplying of financial assistance for the rehabilitation of industry and commerce, threatened with prostration as a result of the great depression. Baltimore National Bank v. State Tax Commission, 297 U. S. 209, 211; Langer v. United States, 8 Cir., 76 F. 2d 817, 823; United States v. Lewis, D. C. W. D. Ky., 10 F. Supp. 471; cf. State Tax Commission v. Van Cott, 306 U. S. 511, 515.

Outside of the decision below, D. C. W. D. N. Y., 29 F. Supp. 853, the only precedents dealing directly with costs against governmental corporations are those denying any award. National Home v. Wood, 7 Cir., 81 F. 2d 963, affirmed 299 U. S. 211;[2] Federal Deposit Ins. Corp. v. Barton, 10 Cir., 106 F. 2d 737; Federal Deposit Ins. Corp. v. Casady, 10 Cir., 106 F. 2d 784. These are governmental corporations, which are, if anything, less engaged in exercising functions of sovereignty than is appellee here. Recent cases in the Supreme Court, referred to in the opinion, show the care and caution with which that Court has proceeded in discovering a legislative intent for even suability of particular corporations. Thus, Keifer & Keifer v. Reconstruction Finance Corporation, 306 U. S. 381, 59 S. Ct. 516, 83 L. Ed. 784, and Federal Housing Administration, Region No. 4 v. Burr, 60 S. Ct. 488, allowed suits in situations which do not appear to be an extension of previous conceptions.[3] The theory of governmental immunity is restated and applied in the latest decision. United States v. Shaw, 60 S. Ct. —.[4]

As the opinion states, complete immunity for the government has been properly criticized, and reforms have been advocated relieving the citizen of manifest disadvantage from injury by the state. Compare Borchard, State and Municipal Liability in Tort—Proposed Statutory Reform, 20 A. B. A. J. 747, with bibliography; and United States v. Petroleum Nav. Co., 2 Cir., 109 F. 2d 699. But all sugges-

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[2] The force of this precedent does not seem to me destroyed because the statute 38 U. S. C. A. § 11d authorizes suits in the district courts and court of claims "according to the ordinary provisions of law governing actions against the United States, and such courts shall have the power to enter judgment against the United States, with interest, in the same manner and to the same extent as if said corporation were a party defendant." This language affords a narrow basis for according this corporation alone an immunity from costs; rather does it suggest that Congress did not think of a judgment against the United States as differing in "manner" and "extent" from one against a corporation of this nature.

[3] In the Keifer case, supra, the court held the Regional Agricultural Credit Corporation, the child of the Reconstruction Finance Corporation which is subject to suit, liable for negligent care as a bailee of livestock, a wrong not "disassociated from carrying out the very transaction which brought it into existence." In the Burr case, supra, suit by the garnishee process was held to be within the statutory authority to be sued; the Court carefully pointed out, however, that if the Administration had no funds they could not be obtained from the Treasurer of the United States by any process and hence execution in the action might prove futile.

[4] Compare the statement of Mr. Justice Reed: "* * * The reasons for this immunity are imbedded in our legal philosophy. They partake somewhat of dignity and decorum, somewhat of practical administration, somewhat of the political desirability of an impregnable legal citadel where government as distinct from its functionaries may operate undisturbed by the demands of litigants. A sense of justice has brought a progressive relaxation by legislative enactments of the rigor of the immunity rule. As representative governments attempt to ameliorate inequalities as necessities will permit, prerogatives of the government yield to the needs of the citizen. * * * It is not our right to extend the waiver of sovereign immunity more broadly than has been directed by the Congress."

tions for legislative reform have recognized the need of limitation and have provided careful restrictions on governmental responsibility, in order to prevent indiscriminate raids on the public treasury. Although costs have been said to be an "anachronism" in modern litigation (R. H. Smith, 3 J. Am. Jud. Soc. 112, 115), a policy favoring the award of reasonable costs against the government in the discretion of the court might well be supported before Congress. Even so, it seems rather doubtful whether a case such as the present one should be included. Here appellee loaned money to The Menihan Corporation, when the latter was in financial distress and on the security of its corporate name and special trade-marks. Upon insolvency of The Menihan Corporation, appellee was unable to collect its loan. In this action it was held powerless to prevent a new corporation, J. G. Menihan Corporation, from making use of the similar corporate name and the same trade-marks, and relief was also denied against J. G. Menihan, Sr., president of both corporations. D. C. W. D. N. Y., 28 F. Supp. 920. In the light of such a decision, however necessary it may be, the adoption here of what is really a new policy seems hardly appropriate. Carried to the extent of supporting an award of counsel fees—"almost uniformly" not granted even in equity, Gold Dust Corp. v. Hoffenberg, supra—when legal authority is so doubtful and the equities so opposed, the step, in my judgment, is quite undesirable.

At a Stated Term of the United States Circuit Court of Appeals, in and for the Second Circuit, held at the United States Courthouse in the City of New York, on the 23rd day of May, one thousand nine hundred and forty.

Present: Hon. Thomas W. Swan, Hon. Charles E. Clark, Hon. Robert P. Patterson, Circuit Judges.

Reconstruction Finance Corporation, plaintiff-appellee

vs.

J. G. Menihan Corp., et al., defendants-appellants

Appeal from the District Court of the United States for the Western District of New York.

This cause came on to be heard on the transcript of record from the District Court of the United States for the Western District of New York, and was argued by counsel.

On consideration whereof, it is now hereby ordered, adjudged, and decreed that the order of said District Court be and it hereby is reversed with costs of this court to the appellants, and cause remanded for further proceedings in accordance with the opinion of this court.

It is further ordered that a Mandate issue to the said District Court in accordance with this decree.

D. E. Roberts, *Clerk.*

Order for Mandate. United States Circuit Court of Appeals, Second Circuit. May 23, 1940. D. E. Roberts, Clerk.

United States of America, Southern District of New York

I, D. E. Roberts, Clerk of the United States Circuit Court of Appeals for the Second Circuit, do hereby certify that the foregoing pages, numbered from 1 to 38, inclusive, contain a true and complete transcript of the record and proceedings had in said Court, in the case of Reconstruction Finance Corporation, Plaintiff-Appellee, against J. G. Menihan Corp., et al., Defendants-Appellants, as the same remain of record and on file in my office.

In testimony whereof, I have caused the seal of the said Court to be hereunto affixed, at the City of New York, in the Southern District of New York, in the Second Circuit, this twenty-third day of May, in the year of our Lord one thousand nine hundred and forty, and of the Independence of the said United States the one hundred and sixty-fourth.

[SEAL] D. E. ROBERTS, *Clerk.*

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